

CITY OF NEWPORT BEACH

TIDE & SUBMERGED LANDS ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017



CITY OF NEWPORT BEACH
Tide & Submerged Lands Annual Financial Report
Year Ended June 30, 2017

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CITY OF NEWPORT BEACH

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December 23, 2017

Honorable Mayor, Members of the City Council, Residents of the City of Newport Beach, and Citizens of the State of California,

I am pleased to present the City of Newport Beach – Tide and Submerged Lands (Tidelands) fiscal year 2016-17 annual financial report. The Tidelands Report is a report for the residents of California and provides a concise, easy to read document that enables us to highlight information on the City's administration of the Tidelands pursuant to grants from the State of California.

This report reflects Tidelands fund balances, that when aggregated, agree to amounts presented in the audited, fiscal year 2016-17 Comprehensive Annual Financial Report (CAFR) for the City of Newport Beach, CA, which includes the Tidelands – Operating Fund and Tidelands – Harbor Capital Fund as major fund types, subject to audit.

This report only presents information on the financial condition of the Tidelands funds, and does not address the financial condition of the City of Newport Beach, CA as a whole. For more information on the financial condition of the City of Newport Beach, CA, please see the City's CAFR, which can be viewed on our website, at: www.newportbeachca.gov/CAFR.

Dan Matusiewicz
Finance Director

CITY OF NEWPORT BEACH

Tide and Submerged Lands Annual Financial Report for the Year Ending June 30, 2017

Overview

The City of Newport Beach manages and administers the Tidelands on behalf of all of the people of California and subject to specific legislative grants. The Tidelands within the city's boundaries are owned by the State of California and overseen by the California State Lands Commission (SLC). Some of the lands are administered by the County of Orange, but still are owned by the State.

The City, as a trustee, is required to submit an annual financial report to the SLC. This report enables us to highlight information on the City's financial administration of the Tidelands in more detail than the City's Comprehensive Annual Financial Report (CAFR). This report only presents information on the financial position of the Tide and Submerged Land funds, and does not address the financial position of the City of Newport Beach, CA as a whole. The City's audited CAFR, can be obtained at: www.newportbeachca.gov/cafr.

The City's granted Tidelands consist primarily of the land bayward of the bulkhead and portions of the bay beaches in the Lower Bay (Coastward of the Upper Bay Bridge). Newport Beach Tidelands also include large portions of the City's ocean beaches and land covered by the Pacific Ocean from the shoreline to three (3) miles out to sea. Additionally, some areas within the Tidelands were filled in and developed long ago, and these are known as filled Tidelands. The portion of State Tidelands administered by the City is illustrated on the map below:



Guiding Legislation

The granted Tidelands must be used for purposes consistent with the public trust. Legislation known as the Beacon Bay Bill, adopted in 1978 and subsequently amended multiple times, is the guiding document that outlines how the City is to use and manage Tidelands, as well as how the City accounts for revenues and expenditures generated within Tidelands. According to the Bill, Tidelands can only be used for purposes in which there is a general statewide interest. These purposes are generally as follows:

- Establishing, improving, and operating a public harbor.
- Establishing, maintaining, and operating wharves, docks, piers, slips, quays, ways and streets, or utilities to promote commerce, fishing, or navigation.
- Establishing, improving, and operating beaches, marinas, aquatic playgrounds, and similar recreational facilities open to the public.
- Preserving, maintaining, and enhancing Tidelands in their natural state for use in scientific study, open space, and wildlife habitat.

The City has the power to regulate the use of Tidelands through leases, permits, policies, and ordinances that are consistent with the trust and relevant legislation.

Additionally, the Public Trust Doctrine and the California Constitution advise the City. The Public Trust Doctrine says that:

...The Legislature has the power to delegate the management responsibility of tidelands and submerged lands to local governments. When it does so, these lands are known as granted lands, and the grantees that manage them must ensure that they are used in ways that are consistent with the public trust and with any other conditions the Legislature imposes...

The State Constitution (Article XVI, Section 6) says that:

...The Legislature shall have no power ...to make any gift or authorize the making of any gift, of any public money or thing of value to any individual, municipal or other corporation whatever...

Accounting for Tidelands Revenues and Expenditures

Funds are used by the City as a means to track and control resources intended for specific purposes. The Tidelands funds are utilized to control and manage resources intended for purposes described in the Beacon Bay Bill.

At this time, the City uses a two-fund approach to track and control resources intended for Tidelands accounting purposes.

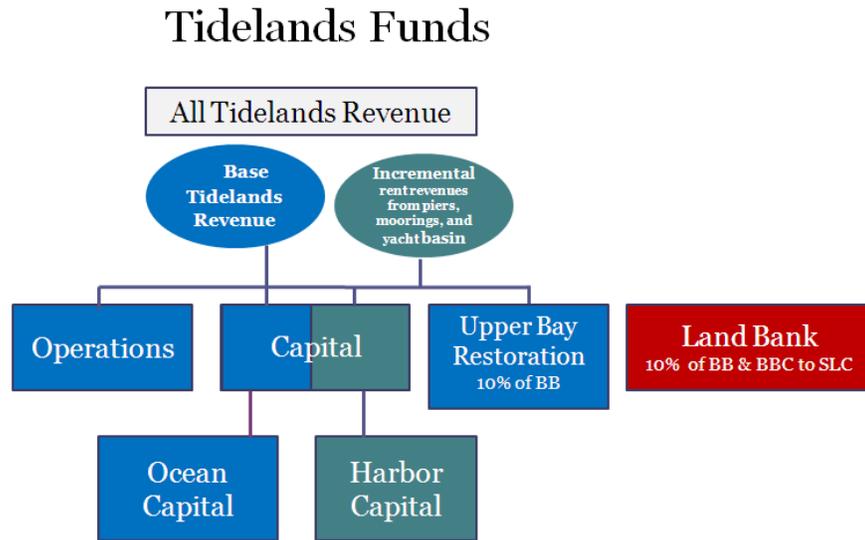
Operating Fund

The Tidelands Operating fund is used to account for revenues related to the operation of the Tidelands under City jurisdiction, including beaches and marinas, and the related expenditures. Revenue from tideland operations includes, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil. Funds intended for the Upper Bay Restoration are also accounted for in this fund in a separate reserve account.

Harbor Capital Fund

With the adoption of new permit and the adjustment of lease templates and adjusted commercial and noncommercial tidelands rent to fair market value in the decade of 2010, the City Council asked the State Lands Commission for permission to create a Harbor Capital Fund to sequester incremental increases from resulting tidelands rent adjustments solely finance critical in-Harbor capital improvements, like sea walls repair, dredging, piers, and important amenities.

The following illustration identifies the structure of the City's Tidelands funds and the allocation of revenue between those funds. Additionally, the City has some discretion on the use of Tidelands revenues within the operating and capital funds.



BB and BBC represents Beacon Bay and Balboa Bay Club respectively.

In 2011, the City Council formed the Tidelands Management Committee, a committee of three (3) Council members plus seven (7) citizen advisors that would meet in public to make recommendations to the City Council on the prioritization and implementation of large infrastructure needs of the harbor through the publicly-available Tidelands Capital Plan. In 2017, the Council dissolved the Tidelands Management Committee and shifted its duties to the Harbor Commission. The Council has discussed a more formal Tidelands Capital Plan that might be adopted and applied similar to several other “master plans” that the City follows.

Advances and the General Fund Subsidy

Beginning in FY 2008-09, the City had an opportunity to complete a long-awaited maintenance dredging project within Lower Newport Bay, and a similar opportunity arose to remove sediments not suitable for ocean disposal that sat at the bottom of the Rhine Channel. The timing was critical, as much of the sediment within the Harbor and the Rhine needed a special repository – and that repository was in fill areas at the Port of Long Beach as the Port embarked on a major terminal expansion. To take advantage of the Port’s space for sediment not suitable for ocean disposal (where the sediment would be buried and encased in a support structure and secured), the City Council advanced a loan from the General Fund to the Tidelands Harbor Capital Fund of \$9.7 million.

In addition, City Council approved another \$6.1 million in loan advances to the Harbor Capital Fund to cover the cost of developing the 23-space visitor-serving marina at the Marina Park project on the Peninsula. These advances are non-interest bearing, and are to be paid back to the General Fund from incremental revenue increases generated from certain leases, mooring rents, and commercial and residential pier rents. The balance of advance due to the General Fund as of June 30, 2017 is \$13.9 million. Please see the notes to the financial statement for the repayment schedule.

Historically, the Tidelands Operating fund does not generate sufficient revenue to cover the full cost of operations – in large part because of the public safety costs (lifeguarding, EMS response, and police services) associated with the ocean beaches. This is still the case in FY 2016-17. Due to the ongoing

gap between revenues and expenditures, the City's General fund transfers money to subsidize the operations of the Tidelands Operating fund, on an annual basis. As Tidelands revenues and expenditures fluctuate year to year, the General fund subsidy also fluctuates. For FY 2016-17, the general fund transferred \$6.8 million to subsidize the Tidelands Operating fund.

Revenues

The Beacon Bay Bill requires the City to set up a separate Tidelands trust fund or funds, and mandates that the City deposit into these funds "all moneys received directly from, or indirectly attributable to..." the granted Tidelands in the City.

Why aren't property taxes and other taxes allocated to the Tidelands trust?
Very simply, the property owner or trustee of the property is not the intended recipient of the tax. For example, all revenue from property taxes are intended for local governments, not the property owner or trustee of the property. Regardless of who owns or operates the Tidelands property, the 1% property tax is distributed to local jurisdictions in accordance with Senate Bill 154 passed in 1978 and amended thereafter. This distribution formula includes counties, cities, special districts but does not include the property owner or trustee of the property.

Revenue from all sources total \$14.1 million for FY 2016-17. The allocation of revenue may be based on specific locations, or on a percentage located within the Tidelands. For instance, several leases are split between the General fund and the Tidelands Operating fund based on the location of specific rental units, or based on the percentage of units located within the Tidelands. Revenues attributable to the Tidelands are deposited and accounted for in the Tidelands funds, consistent with grant and trust requirements.

As noted, the City has committed to using revenues generated by certain incremental increases in rental rates for leases, moorings, and piers over designated base years to support Harbor related capital improvements in the Harbor Capital Fund. This incremental increase consisted of \$412,482 in increased revenues from Balboa Yacht Basin rentals of slips, apartments, and garages; \$1.1 million from Balboa Bay Club; \$727,357 from onshore, offshore, and County-managed guest moorings; and \$110,049 from residential piers.

The table to the right shows the top twelve (12) Tidelands fund revenue producers for FY 2016-17.

Of the total \$14.1 million in revenue attributable to both Tidelands funds, property income is the primary source. Combined Tidelands property income is \$13.6 million, or 96% of FY 2016-17 revenues, and is made up of \$7.3 million from leases, \$3.2 million from parking lots, \$2.1 million from rents for moorings, residential and commercial piers, and marina concession, \$835,245 from the sale of oil and \$350,000 from private donations.

Top Tidelands Revenue Producers			
Top Tidelands Revenue Producers	Tide and Submerged Land Operating	Tide and Submerged Land Capital	Tide and Submerged Land Total
Balboa Bay Resort	\$ 3,011,162	\$ 1,063,284	\$ 4,074,446
Balboa Pier Parking Lot	1,757,916	-	1,757,916
Beacon Bay Residences	1,172,099	-	1,172,099
Oceanfront Parking Meters	919,870	-	919,870
Petroleum Royalties	835,245	-	835,245
Balboa Yacht Basin Slips	653,171	374,315	1,027,486
Offshore Moorings	638,172	475,432	1,113,604
Commercial Piers	381,369	-	381,369
Guest Moorings	-	179,080	179,080
Residential Piers	117,800	110,049	227,849
Marina Park Concession	80,000	15,822	95,822
Onshore Moorings	69,546	50,518	120,064
Total	\$ 11,363,958	\$ 2,696,097	\$ 14,060,054

Note: "Total" includes other Tidelands revenue besides the top revenue producers.

Parking revenue of \$3.2 million is made up of \$1.8 million from the Balboa Parking Lot, \$919,870 from the Ocean front Lot, and \$521,757 from a combination of smaller lots.

Lease revenue of \$7.3 million consists of the following:

- 1) \$4.1 million from the Balboa Bay Club Lease
Per the amendment to the ground lease in FY 2014 with the Balboa Bay Club and the State Lands statute, revenues from the Balboa Bay Club are split – 95% to Tidelands operating fund and 5% to the State Lands Commission’s Land Bank fund. Starting in FY 2019, they will be modified – 90% to Tidelands operating fund and 10% to the State Lands Commission’s Land Bank fund.
- 2) \$1.2 million from Balboa Yacht Basin leases for slips, apartments, garages, offices, and electricity
Balboa Yacht Basin revenues are split – 53% to the General fund and 47% to Tidelands based on the percentage of area in the Tidelands.
- 3) \$1.2 million from Beacon Bay residential leases
Tidelands-related Beacon Bay lease revenues are split – 80% to the Tideland Operating fund, 10% restricted within the Tidelands Operating fund for Upper Newport Bay Restoration, and 10% deposited in the Land Bank fund held and administered by the State Lands Commission. Some of the Beacon Bay residences are actually on uplands, and lease revenue from these properties goes to the General Fund.
- 4) The remaining \$944,406 is derived from a variety of smaller leases.

Newport Beach is home to approximately 4,300 boats, 1,200 moorings, 1,200 residential piers, and 1,900 commercial slips and ties, resulting in \$2.0 million in revenue from rentals, including \$1.4 million in revenue from off-shore, on-shore, and county managed guest moorings, \$227,849 from residential piers, and \$381,369 from commercial piers.

The City received \$835,245 in revenues from the sale of oil. During FY 2016-17, 21,376 barrels of oil were produced from 11 working wells located in West Newport. The City has set aside \$600,000 in the Tideland’s Operating fund for future improvements to these oil wells, but as of the date of this report, no determination has been made to proceed with these improvements.

In FY 2016-17, a donation from Newport Harbor Yacht Club in the amount of \$350,000 was received by the City to fund the construction of the public pier.

Additional revenue sources include:

- 1) \$105,3870 from licenses and permits, derived from pier transfer fees and live aboard permits
- 2) \$5,856 in charges for services from investigative fees
- 3) \$44,847 from interest income
- 4) \$3,549 from fines and forfeitures for administrative fines and abandoned vessels

Expenditures

Generally, the Beacon Bay Bill permits the City to expend the revenues accruing from use of the Tidelands for the management, operation, and control of the lands and/or any improvements, betterments, or structures, as well as for any use that furthers the purposes of the trust. Total tidelands expenditures for FY 2016-17 totaled \$18.7 million. The City’s expenditure approach is reviewed regularly between City staff and SLC staff.

Direct Costs are those activities, programs, or functions whose primary purpose wholly or substantially benefit the Tidelands. These expenditures are charged directly to the activity, program, or function that benefits from them. There are currently four (4) types of expenditures charged directly to the Tidelands funds: 1) Harbor Resources division operating costs of \$2.5 million; 2) MOD-General Services operating costs of \$516,742; 3) Community Development operating costs of \$4,098; and 4) capital projects directly benefitting, or located within the Tidelands of \$3.3 million.

Indirect Costs are those City-wide costs for services that support a variety of City activities, programs, and functions and are centrally budgeted. Examples include but are not limited to; 1) Public safety services to Tidelands users, including Police, Fire, and Marine safety services of \$9.5 million; 2) Public

Works services that protect or otherwise support the Tidelands, such as water quality, stormwater protection, dredging, infrastructure maintenance, and municipal operations of \$2.0 million; and 3) General government administrative services of \$820,370 including City Council, City Clerk, City Attorney, City Manager, Finance, Human Resources, building use, which generally consists of the Tidelands' share of this overhead, and parking operations.

The City uses outside cost allocation experts, currently MGT of America Inc. (MGT), to develop the indirect cost allocation plan that identifies and distributes these indirect costs to all operating activities, programs, and functions within the City's organizational structure. This allocation plan includes allocation of costs to the Tidelands Operating fund.

The cost allocation plan takes a detailed approach to analyzing the costs attributable to Tidelands Operations. MGT interviewed staff in each department and analyzed data within each central activity to determine: 1) what services are provided; 2) which functions or departments receive benefits from these services; and 3) how to determine the amount of benefit received, or what is the best driver for allocating centrally budgeted services to programs or functions receiving the benefits.

For example, Public Works salaries and operating expenses may be allocated based on a time study of which programs or functions were worked on; Accounts Payable salaries and operating expenses may be allocated on the number of checks processed for a program or function; City Clerk salaries and operating expenses may be allocated based on the number of agenda items per program or function. There are many alternative drivers to choose from, and the City relies on MGT's expertise in selecting these drivers.

The drivers are used to allocate General government activities among the City's departments and divisions, then administrative costs within the departments and divisions are allocated to the various activities, programs, and functions of the City using similar methodologies. Indirect costs are added to direct costs to determine the full cost of each activity, program, and function.

Finally, a share of the full cost of activities, programs, and functions that provide services to the Tidelands are allocated using the best drivers and methodologies identified by MGT. For FY 2016-17, total expenditures of \$18.7 million for both funds included indirect cost allocations to the Tidelands Operating fund totaling \$12.3 million.

The City regularly reports its expenditure information, including the indirect cost allocation, to the State Lands Commission for review and approval to ensure the City is meeting all the obligations of the Beacon Bay Bill; using Tidelands funds only for Tidelands purposes.

Conclusion

The City endeavors to manage and administer Tidelands in accordance with the appropriate legislation while working with the California State Lands Commission to ensure Newport Harbor continues to be a prosperous and effective harbor. It is always fair to re-evaluate both Tidelands revenue sources and expenditure purposes on a regular basis, and the City attempts to do so with the City Council, the community, and the State Lands Commission. Changes to the allocations, if consistent with the Trust and related legislation, should be viewed both on their merits and how they might impact City operations, services, and other funds.

Comprehensive financial detail on City of Newport Beach Tidelands can be found in the financial statements that follow.

CITY OF NEWPORT BEACH
Tide and Submerged Lands
Balance Sheet
June 30, 2017

	Tide and Submerged Land Operating	Tide and Submerged Land Harbor Capital	Tide and Submerged Land Total Funds
Assets			
Cash and investments	\$ 5,821,912	\$ 8,215,913	\$ 14,037,825
Receivables:			
Accounts (net of allowance)	484,333	-	484,333
Intergovernmental receivables	-	621,392	621,392
Total assets	\$ 6,306,245	\$ 8,837,305	\$ 15,143,550
 Liabilities, Deferred inflows of resources, and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,072,366	\$ 68,205	\$ 1,140,572
Accrued payroll	16,613	-	16,613
Deposits payable	165,265	-	165,265
Unearned Revenue	550,595	-	550,595
Advance from other funds (note 2)	-	13,926,659	13,926,659
Total liabilities	\$ 1,804,839	\$ 13,994,864	\$ 15,799,704
 Deferred Inflows of Resources:			
Unavailable revenue	-	563,521	563,521
Total deferred inflows of resources	\$ -	\$ 563,521	\$ 563,521
 Fund balances (deficit):			
Restricted:			
Upper Newport Bay Restoration	725,939	-	725,939
Other	2,548,989	-	2,548,989
Encumbrance	626,478	-	626,478
Committed:			
Oil and Gas Liabilities	600,000	-	600,000
Unassigned:	-	(5,721,080)	(5,721,080)
Total fund balances (deficit)	4,501,406	(5,721,080)	(1,219,674)
 Total liabilities, deferred inflows of resources, and fund balances	 \$ 6,306,245	 \$ 8,837,305	 \$ 15,143,551

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2017

	Tide and Submerged Land Operating	Tide and Submerged Land Harbor Capital	Tide and Submerged Land Total Funds
Revenues			
Licenses and permits	\$ 105,387	\$ -	\$ 105,387
Charges for services	5,856	-	5,856
Fines and forfeitures	3,549	-	3,549
Investment income	34,716	10,131	44,847
Income from the use of property and money			
Parking			
Balboa Lot	1,757,916	-	1,757,916
Other parking	1,440,627	-	1,440,627
Total Parking	3,198,543	-	3,198,543
Leases			
Balboa Yacht Basin Slips (net of increment)	653,171	374,315	1,027,486
Balboa Yacht Basin Garages (net of increment)	35,344	25,197	60,541
Balboa Yacht Basin Apartments (net of increment)	30,456	12,970	43,426
Balboa Yacht Basin Offices	5,790	-	5,790
Balboa Yacht Basin Electricity	18,274	-	18,274
Balboa Bay Club	3,011,162	1,063,284	4,074,446
Beacon Bay	1,172,099	-	1,172,099
Other Leases	938,546	5,860	944,406
Total Leases	5,864,842	1,481,625	7,346,468
Rent			
Moorings Off-Shore (net of increment)	638,172	475,432	1,113,604
Moorings On-Shore (net of increment)	69,546	50,518	120,064
Moorings Guest (net of increment)	-	179,080	179,080
Moorings Transfers (net of increment)	-	22,327	22,327
Residential Piers Rent (net of increment)	117,800	110,049	227,849
Commercial Piers Rent (net of increment)			
Large Com Marina Rent	240,291	-	240,291
Small Com Marina Rent	45,656	-	45,656
Vessel Charter Bus Rent	23,985	-	23,985
Vessel Rental Facility Rent	17,651	-	17,651
HOA NONMEM <13,000 sqf	3,873	-	3,873
Yacht Club Guest Slip Rent	12,658	-	12,658
Restaurant Rent	7,517	-	7,517
Shipyard Rent	12,574	-	12,574
Other Rent - City Tld (Harbor Marina)	4,363	-	4,363
Other Rent - Bldg over Tld	4,619	-	4,619
Fuel Dock - Base/Plus Rent	4,209	-	4,209
Sport Fishing Charter Rent	3,973	-	3,973
Total Commercial Piers Rent	381,369	-	381,369
Total Rent	1,206,887	837,405	2,044,292
Sale of Oil	835,245	-	835,245
Marina Park Concession	80,000	15,822	95,822
Other	28,933	1,112	30,045
Total property income	11,214,450	2,335,965	13,550,415
Private Donation	-	350,000	350,000
Total Revenues	\$ 11,363,958	\$ 2,696,096	\$ 14,060,054

See accompanying notes to basic financial statements

CITY OF NEWPORT BEACH
Tide and Submerged Lands
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2017

Continued

	Tide and Submerged Land Operating	Tide and Submerged Land Harbor Capital	Tide and Submerged Land Total Funds
Expenditures			
General government:			
City council - Indirect	\$ 7,471	\$ -	\$ 7,471
City clerk - Indirect	25,138	-	25,138
City attorney - Indirect	76,028	-	76,028
City manager - Indirect	101,648	-	101,648
Finance - Indirect	84,281	-	84,281
Human resources - Indirect	10,038	-	10,038
Building use - Indirect	120,000	-	120,000
Parking operations - Indirect	395,768	-	395,768
Total General government	<u>820,370</u>	<u>-</u>	<u>820,370</u>
Public safety:			
Police - Indirect	2,840,061	-	2,840,061
Fire - Indirect	2,147,877	-	2,147,877
Marine safety - Indirect	4,560,073	-	4,560,073
Total Public safety	<u>9,548,011</u>	<u>-</u>	<u>9,548,011</u>
Public works:			
Public works - Indirect	480,865	-	480,865
MOD - General services - Direct	516,742	-	516,742
MOD - General services - Indirect	1,482,415	-	1,482,415
Total Public works	<u>2,480,022</u>	<u>-</u>	<u>2,480,022</u>
Community development:			
Community development - Direct	4,098	-	4,098
Total Community development	<u>4,098</u>	<u>-</u>	<u>4,098</u>
Community services:			
Harbor resources - Direct	2,489,386	-	2,489,386
Total Community services	<u>2,489,386</u>	<u>-</u>	<u>2,489,386</u>
Capital improvement projects: - All are Direct			
Grand Canal Emergency	-	381,449	381,449
Balboa Island Seawall	-	126,966	126,966
Harbor Dredging	-	41,427	41,427
Marina Park	-	38,000	38,000
Central Ave Public Pier/St End	-	569	569
Semeniuk Slough Dredging	1,360,404	-	1,360,404
Beach/Bay Sand Mgmt (SA River)	511,081	-	511,081
Ocean Piers Inspect/Maintenance	344,154	-	344,154
Tidegate Retrofit	171,152	-	171,152
Surfside Sunset Coastal Sand Replenishment	158,601	-	158,601
Eelgrass Survey	57,387	-	57,387
Newport Pier Building Platform	52,516	-	52,516
Arches and Bayview Drainage	49,082	-	49,082
Newport Elementary Park Maintenance	23,612	-	23,612
Bay Beach Sand Management	9,991	-	9,991
Total Capital improvement projects	<u>2,737,980</u>	<u>588,411</u>	<u>3,326,392</u>
Total Expenditures	<u>\$ 18,079,867</u>	<u>\$ 588,411</u>	<u>\$ 18,668,278</u>
Other financing sources			
Transfers in	6,762,805	-	6,762,805
Total other financing sources	<u>6,762,805</u>	<u>-</u>	<u>6,762,805</u>
Net change in fund balance	46,896	2,107,685	2,154,581
Fund balance, beginning	<u>4,454,510</u>	<u>(7,828,765)</u>	<u>(3,374,255)</u>
Fund balance, ending	<u>\$ 4,501,406</u>	<u>\$ (5,721,080)</u>	<u>\$ (1,219,674)</u>

See accompanying notes to basic financial statements

NOTES

1) Basis of Accounting and Measurement Focus

The basic financial statements of the Newport Beach, CA Tide and Submerged Lands are comprised of fund financial statements and notes to the financial statements.

The fund financial statements utilize the current financial resources measurement focus and thus have a short-term focus measuring inflows of current spendable assets. The resulting net difference between current financial assets, deferred outflows of resources, current financial liabilities, and deferred inflows of resources is otherwise known as fund balance. Fund balance is similar to net working capital in the private sector, a measure of the entity's ability to finance activities in the near term.

Tidelands are accounted for in two Special Revenue funds. These Special Revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for the Tide and Submerged Lands. Fund descriptions are:

Tide and Submerged Land – Operating Fund is a Special Revenue fund used to account for revenues related to the operation of the City's tidelands, including beaches and marinas, and the related expenditures. Revenue from tideland operations includes, but is not limited to, rents from moorings, piers, and leases, as well as income from parking lots, meters, and the sale of oil.

Tide and Submerged Land – Harbor Capital Fund is used to account for incremental increases in revenue from certain property lease, pier, and mooring rentals that exceed Council designated base year revenue amounts, as well as other designated revenues and the related expenditures for capital projects, maintenance, and servicing of loan advances from the General fund.

These funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become measurable and available as net current assets. *Measurable* means that the amounts can be estimated or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The City uses an availability period of 60 days for all revenues in the Tidelands fund.

2) Advances

Advances from the General fund to the Tide and Submerged Land – Harbor Capital fund are primarily for the purpose of funding expenditures for dredging, seawall repairs and maintenance, and other high impact projects within the City's tidelands, specifically within, or benefitting the Newport Harbor. Over the years, the General fund has advanced \$15.8 million to the Tide and Submerged Land – Harbor Capital fund. The balance of advance due to the General Fund as of June 30, 2017 is \$13.9 million.

	Advance From	Advance To
General Fund	\$ 13,926,659	\$ -
Tide and Submerged Land - Harbor Capital Fund	-	13,926,659
Total	<u>\$ 13,926,659</u>	<u>\$ 13,926,659</u>

The advances will be paid back to the General fund from incremental revenue increases generated from certain leases, mooring rents, and commercial and residential pier rents. Below is the repayment schedule:

Harbor Capital Fund Advance - Repayment Terms (Zero Interest Advance)			
	Advance #1 Dredging Projects	Advance #2 Marina Park Project	Total
Fiscal Year	Repayment	Repayment	Repayment
2018	\$ 750,000	\$ 250,000	\$ 1,000,000
2019	750,000	250,000	1,000,000
2020	750,000	500,000	1,250,000
2021	750,000	500,000	1,250,000
2022	750,000	500,000	1,250,000
2023	750,000	500,000	1,250,000
2024	750,000	500,000	1,250,000
2025	750,000	500,000	1,250,000
2026	750,000	500,000	1,250,000
2027	750,000	500,000	1,250,000
2028	426,659	500,000	926,659
2029	-	500,000	500,000
2030	-	500,000	500,000
Total	\$ 7,926,659	\$ 6,000,000	\$ 13,926,659

3) Revenue

In some instances, governmental accounting standards permit revenues in governmental funds to be reported net of certain costs. Accordingly, other leases revenue of \$944,406 is reported net of \$5,654 of estimated uncollectible customer accounts, and parking meter revenues are reported net of \$127,362 of related credit card service costs.



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